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Tokyo Wrestles With Apology For Pearl Harbor Attack

After nearly a year of apprehension in Japan about how the commemoration of that country's December 7, 1941 attack on Pearl Harbor might precipitate a new round of "Japan-bashing" in the United States, Prime Minister Kiichi Miyazawa expressed "deep remorse" December 6 for his country's "unbearable attack" on the United States 50 years ago. This followed a similar statement three days earlier in which Foreign Minister Michio Watanabe acknowledged his country's blame for what then President Franklin Roosevelt called an act of infamy; Mr. Watanabe attributed the attack to the Japanese military's "reckless" decision to go to war with the United States. Both officials stopped short of offering an explicit apology due to sharp differences within the ruling Liberal Democratic Party over this issue. Although Mr. Watanabe said the national legislature "definitely" would pass a formal resolution expressing similar feelings of remorse, Japanese lawmakers were so divided over the appropriateness of an apology that December 7 came and went without Diet action on this purely symbolic, but politically significant, measure.

In a move that intrigued some political commentators Mr. Watanabe apparently sought to set a positive tone for the Pearl Harbor anniversary by granting an exclusive interview December 3 to a Washington Post Tokyo correspondent. According to Japanese sources, the Ministry of Foreign Affairs specifically chose the Washington Post because of its large policymaking readership. The Post's placement of the interview at the top of the front page of the December 4 issue pleased senior diplomats.

Speaking through an official interpreter, Mr. Watanabe said that the Japanese people "feel a deep remorse about the unbearable suffering and sorrow Japan inflicted on the American people and the peoples of Asia and the Pacific during the Pacific War, a war that Japan started with the surprise attack on Pearl Harbor." The foreign minister attributed Tokyo's aggression to "the reckless decision of our military . . . a fact we have to reckon with." No doubt in response to critics who have used the analogy that Japanese business practices and the government's economic policies have bitten the hands that fed them during the early, difficult postwar years, Mr. Watanabe credited American help and friendship since World War II as "the foundation for Japan's current prosperity." He added that even though Japan has emerged as a global economic power his country still "can't hold a candle" to the United States in terms of technology, discoveries and inventions.

Mr. Miyazawa virtually repeated these comments in a December 6 press conference. The Japanese government exercised great care over the wording of its remarks commemorating the Pearl Harbor 50th anniversary out of concern about current tensions in U.S.-Japan trade relations and the importance of sound relations with Asian neighbors. To offset the view in certain American quarters that Japan has adopted an almost cavalier attitude about how the United States helped the country rebuild after the war, some Japanese government officials felt it was important not only to offer an apology but also to convey a sense of gratitude for American support.

In its Pearl Harbor-related remarks Tokyo also wanted to help lay to rest residual fears in Southeast Asia about Japanese militarism. The Diet has been considering legislation that would authorize the dispatch abroad of Self-Defense Forces to participate in United Nations-sponsored peacekeeping operations. While Washington and most other allies have responded favorably to this initiative, some Southeast Asian critics have argued that the authorization would risk raising the specter of Japanese militarism experienced in World War II.

Senior Japanese officials devoted considerable attention to the English translation of the remarks by Messrs. Miyazawa and Watanabe in recognition that certain words in Japanese have different nuances and various translations. For example, in the Washington Post interview, Mr. Watanabe reportedly used the words fukaku hansei, which the Foreign Ministry, in working closely with the official interpreter, chose to have translated as "deep remorse." In other instances, however, these words have been translated as "deep reflection" or "contrition."

Japanese officials who wished not to be identified maintained that Foreign Ministry bureaucrats pushed for a stronger choice of words in Japanese but evidently encountered resistance from conservatives within the ruling party, who argued that Japan should not have to apologize for anything -- particularly since President Bush said December 1 that Washington would not apologize for its war-end nuclear attacks on Nagasaki and Hiroshima. The opposition parties long have urged a formal Japanese apology; the Social Democratic Party of Japan, in fact, began lobbying for a Pearl Harbor resolution early this year. The SDPJ reportedly proposed language on the order of "Japan expresses its deep apologies to its Asian neighbors and other countries" for its militaristic conquests leading up to and during World War II.

When Mr. Watanabe spoke with the Washington Post a compromise between the LDP and the political opposition appeared likely on the wording of a non-binding resolution that expressed "regret" or "remorse" for Tokyo's December 1941 attack on the Hawaiian base; the resolution also pledged that Japan never again would start a war. The agreement evidently was not firm, because LDP leaders could not persuade their more hawkish members to come to terms with pacifist-leaning and moderate members on appropriate language. SDPJ chairman Makoto Tanabe blasted Mr. Miyazawa and the ruling party December 8 for "turn-[ing] [their] backs on the historical truth" by refusing to "sincerely apologize" for Japan's World War II military campaign.

Ignoring LDP lawmakers' paralysis on this issue, President Bush graciously acknowledged Mr. Miyazawa's formal statement of "deep remorse" concerning the attack on Pearl Harbor during somber December 7 ceremonies at the Hawaiian base. "It was a thoughtful, it was a difficult expression much appreciated by the people of the United States of America," the president said in the last of three speeches he gave early that morning at the National Cemetery of the Pacific, the USS Arizona Memorial and Kilo 8 Pier. He credited the Showa Emperor, who ruled during the war and was a figurehead leader until his death in 1989, with playing a "major role in the spiritual regeneration of Japan." Now is not the time for recrimination, Mr. Bush told a large gathering of World War II veterans and their families. He added, "I have no rancor in my heart toward Germany or Japan . . . and I hope, in spite of the loss, that you have none in yours."

Although he earlier had said that apologies for wartime attacks were unnecessary, the president took the occasion of the Pearl Harbor ceremonies to acknowledge that the U.S. internment during the war of some 120,000 Japanese-Americans was unfair. These natural-born American citizens of Japanese descent were "innocent victims, who committed no offense," the president said. Mr. Bush also used Japan's attack on the United States to comment on the danger of isolationism "and its economic accomplice, protectionism." In particular, the president called on U.S. trading partners in Europe and Asia to avoid economic isolationism. "To the leaders of Japan in particular," Mr. Bush said, "this solemn occasion should reinforce our determination to join together in a future energized by free markets and free people."

Barbara Wanner

Japan's Economic Growth Slows Further

Tokyo's spin doctors professed to be pleasantly surprised at the Economic Planning Agency's news that Japan's price-adjusted gross national product grew 1.6 percent on an annual basis in the July-September period (see Table). Never mind that the pace was the slowest in more than two years, they seemed to say, the performance was much better than the expected negative growth. The components of GNP, however, suggested a grimmer reality: Japan's economy showed the classic symptoms of an economy in the early stages of a slowdown.

Typically, housing is among the first sectors to show weakness in a slowdown; he latest EPA report indicated that residential construction had declined for the fourth straight quarter. Another sector that usually weakens early in the slowdown process is corporate plant and equipment spending. In the

Japan's Real Gross National Product at Constant (1985) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1989	FY 1990	October-December 1990	January-March 1991	April-June 1991	July-September 1991
Gross Domestic Product	n.a. (n.a.)	Y406,615.1 (5.7%)	Y407,721.5 (4.0%)	Y414,372.6 (6.8%)	Y418,446.7 (4.0%)	Y419,799.1 (1.3%)
Gross National Product	Y387,502.0 (4.6%)	409,167.8 (5.6%)	409,798.1 (4.0%)	418,093.0 (8.3%)	421,003.9 (2.8%)	422,628.7 (1.6%)
Personal Consumption Spending	224,935.9 (3.7%)	234,101.1 (4.1%)	233,610.0 (-0.7%)	234,948.3 (2.4%)	238,652.2 (6.4%)	240,766.6 (3.6%)
Private Residential Construction	21,787.0 (0.9%)	22,833.7 (4.8%)	22,998.0 (-6.3%)	22,576.7 (-7.2%)	21,110.7 (-23.4%)	20,639.5 (-8.6%)
Private Fixed Nonresidential Investment	79,197.7 (14.5%)	88,847.4 (12.2%)	90,253.3 (12.8%)	92,263.4 (9.4%)	91,559.7 (-3.0%)	92,157.6 (2.6%)
Change in Business Inventories	3,677.3 (*)	2,910.4 (*)	2,666.1 (*)	3,071.8 (*)	3,172.3 (*)	2,742.3 (*)
Government Current Expenditures	33,618.8 (1.8%)	34,420.1 (2.4%)	34,518.7 (7.4%)	35,036.8 (6.6%)	35,595.7 (6.2%)	35,082.2 (-5.6%)
Government Fixed Investment	24,957.9 (-0.2%)	26,250.7 (5.2%)	25,981.2 (5.2%)	26,143.3 (2.6%)	27,378.4 (20.1%)	27,459.8 (1.2%)
Change in Government Inventories	-59.1 (*)	91.6 (*)	-601.7 (*)	80.2 (*)	-199.8 (*)	240.8 (*)
Net External Sector	-613.5 (*)	-287.1 (*)	372.4 (*)	3,972.5 (*)	3,734.7 (*)	3,539.9 (*)
Exports of Goods and Services and Factor Income Received	68,437.0 (15.6%)	73,723.0 (7.7%)	73,445.5 (11.0%)	76,508.5 (18.0%)	74,796.4 (-8.6%)	76,403.7 (8.8%)
Imports of Goods and Services and Factor Income Paid	69,050.5 (20.2%)	74,010.1 (7.2%)	73,073.1 (-4.2%)	72,536.0 (-3.0%)	71,061.7 (-7.8%)	72,863.8 (10.5%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

fiscal year that ended March 31 capital expenditures accounted for a remarkable 21.7 percent of real GNP, but business investment grew only slightly in the July-September period and not by enough to offset the weak, revised figure for the previous quarter. As a result, such spending still was below that recorded in the January-March period.

The foreign sector and consumer spending, which initially are often resilient in the face of an economic downturn, played their expected roles in the most recent quarter. Exports, which depend mostly on the health of foreign economies, not the domestic one, remained relatively strong. Imports, in general, are harder to forecast. In the last two quarters they have moved in the same direction as exports, thereby leaving the foreign sector with little net influence on aggregate demand.

Consumer spending typically weakens only in the face of certified weakness in the economy, in part because labor market conditions and wage payments are among the last to be affected by a downturn. Particularly in the latest period, consumers ended up carrying virtually the whole burden of generating economic growth. Consumer spending added 0.5 percentage point to the quarterly growth total of 0.4 percent, suggesting that, absent this factor, the Japanese economy would have contracted in the July-September quarter.

Inventory behavior in the late summer and early fall also was consistent with the view of a still-spreading slowdown. Inventory accumulation has yet to drop off markedly, suggesting that firms remain tentative about trimming production. Should inventories -- now at the highest level since the last recession -- continue mounting, producers will be forced to cut back.

Government spending, which plays a relatively small role in Japan's economy, has shown an erratic pattern in recent periods. The revised data covering quarters since last fall for current public expenditures and fixed public investment, the two major components of government spending, reflected sharp upward adjustments from the figures announced three months ago. However, the figures for the July-September quarter indicated a slowing of that growth. The acceleration in government fixed investment, assuming it resumes, is likely to please Washington, which has pushed for sharply higher public works expenditures.

The revised figures for earlier quarters are part of a substantial Economic Planning Agency reworking of the GNP data. At the same time that it announced revised GNP figures EPA released data on gross domestic product for recent quarters. Most experts regard GDP as a superior indicator of an economy's health, which is one reason GDP is the standard measure in much of Europe. In contrast to GNP, GDP does not include income earned by capital invested abroad or by residents working in foreign countries. Neither the Japanese nor the American GNP figures differ substantially from their GDP counterparts since foreign workers and overseas investment in each country account for a relatively small fraction of total economic activity. However, as in the United States, which shifted to an emphasis on GDP over GNP for the data pertaining to 1991's third quarter, Japan has experienced more variation in GNP than GDP over the last year or so because net overseas factor income has fluctuated wildly. For example, annualized GNP grew a revised 8.3 percent in the January-March quarter. By contrast, GDP grew only 6.8 percent in the same time frame. In the second quarter GNP and GDP reversed roles; GNP grew a scant 2.8 percent, while

GDP rose 4 percent. (In the July-September period GNP and GDP grew at approximately the same rates -- 1.6 percent and 1.3 percent, respectively.) As this example illustrates, differences in the two measures tend to cancel out over time.

In general, GDP has shown a smoother and, arguably, more realistic quarterly growth path in both the United States and Japan. However, unlike the American media, the Japanese press did not move immediately to emphasize GDP. The likelihood is that the two measures will share the spotlight in Japan, with the component sectors, as shown in the table, summing to GNP rather than GDP.

By whatever measure, recent private-sector forecasts imply that Japan's economic slowdown is not likely to be reversed soon. For example, the economic research arm of Fuji Bank, Ltd., after analyzing the July-September figures, predicted that real FY 1991 growth will come to 3.5 percent. While this figure seems to imply a fairly good economic performance, no economic growth at all in the remaining two quarters of FY 1991 would leave full-year growth at 3.2 percent. The estimates made by the Fuji Bank unit are typical; most forecasts suggest that any expansion in the next two quarters is expected to be minimal. While such prognostications hardly evoke an economy in a free-fall, they do imply that Japan is sharing in the worldwide slowdown of economic activity in the early 1990s.

Douglas Ostrom

Tokyo Finds Fiscal Cupboard Bare

As the evidence of slower domestic economic growth accumulates (see preceding article), budget analysts with the Ministry of Finance and Liberal Democratic Party are scrambling to shore up lagging revenues while revising spending priorities. As is true in most countries where politicians talk about raising taxes, such suggestions in Japan have generated criticism from individuals as well as domestic and foreign corporations. Furthermore, MOF has taken a tough stance against greater spending despite a growing popular chorus calling for stimulative fiscal action. Against the backdrop of the struggling American and European economies, Tokyo's fiscal decisions strongly will influence the course of the global economy.

FY 1991 supplemental spending - Perhaps the starkest signal of Tokyo's fiscal problems is the almost invisible net increase in general account outlays in the government's proposed supplemental spending package for the current fiscal year (see Table 1). As approved by the cabinet December 6, the FY 1991 supplement would add just over Y266 billion ($2 billion at Y135=$1.00) to the initial general account budget of Y70,347.4 billion ($521.1 billion). The tiny increase will put revised spending growth for FY 1991 at just 1.4 percent over FY 1990's comparable figure of Y69,651.2 billion ($515.9 billion); this amount is quite a comedown from the initial FY 1991 budget's 6.2 percent gain. The small net increase breaks a pattern of large supplemental budgets seen over the past several years.

The tiny net change, however, masks some interesting points. Additions to FY 1991 outlays actually amount to Y1,728.6 billion ($12.8 billion), more than half of which is directed at two areas: disaster relief and a pay raise

Table 1: FY 1991 Supplemental General Account Budget

(in millions of yen)

Expenditures	
Increase	
Disaster-related expenses	Y608,429
Disaster relief payments	586,350
Agricultural damage payments	2,566
Other	19,513
Civil servant pay hike	326,664
Administrative expenses	80,849
Trade insurance special account appropriation	23,500
Housing/municipal infrastructure investment	166,662
Transfers to local governments	404,155
Other	118,371
Subtotal	1,728,630
Decrease	
Administrative expenses	-748,704
Transfers to local governments	-578,880
Overestimate for civil servant pay hike	-135,000
Subtotal	-1,462,584
Net Expenditures	266,046
Revenues	
Increase	
Construction bond issues	Y1,387,000
FY 1990 general account surplus	1,402,508
Other	340,516
Subtotal	3,130,024
Decrease	
Tax and stamp revenues	-2,782,000
Other	-81,978
Subtotal	-2,863,978
Net Revenues	266,046

Source: Ministry of Finance

for government workers. Categories that traditionally have been favored in the supplemental budget -- public works and foreign aid -- show very limited increases in the FY 1991 package. Spending cuts, however, are up sharply compared to previous years and total Y1,462.6 billion ($10.8 billion). Just over half of the cuts will come from a 10 percent reduction in every government agency's operating budget for the remainder of the fiscal year. Transfers to local governments also will be trimmed for the first time. The amount of transfers normally follows a fixed formula apportioning the revenues from a handful of taxes (see JEI Report No. 41A, November 1, 1991). Under this formula local transfers in the FY 1991 supplemental budget should have totaled Y983.1 billion ($7.3 billion). Under a special agreement local transfers in the FY 1991 supplement will

be less than half that figure, or Y404.2 billion ($3 billion). These tough steps underscore MOF's determination to limit the need for government borrowing.

Issues of construction bonds, nevertheless, are to expand by Y1,387 billion ($10.3 billion), which is on top of the Y5,343 billion ($39.6 billion) listed in the initial FY 1991 budget. As an indication of how tight MOF considers the government's financial situation to be, this amount represents the maximum construction bond issuing authority for FY 1991 and will bring the general account's dependence on borrowed funds up to 9.5 percent from the initially targeted 7.6 percent mark. Another indication of the tightness of Tokyo's fiscal condition is the fact that the entire carryover from FY 1990 -- Y1,402.5 billion ($10.4 billion) -- will be used to fund current needs. In previous years MOF was able to "save" part of the previous year's surplus by transferring it to one of the government's special accounts. In FY 1991, however, Y998.3 billion ($7.4 billion) will be treated as general revenues, with the remainder transferred to local governments.

These revenue contortions are necessary because tax revenues are failing to meet MOF's projections. Revenues in the first seven months of FY 1991 (April-October) not only ran 1.6 percent behind the previous year's receipts for the same period but also contrasted sharply with MOF's expected 2.1 percent increase. In a reflection of tougher economic conditions revenues from only five taxes are running below FY 1990's levels: securities transactions (54.4 percent of last year's take), corporate income (82.5 percent), consumption (96.7 percent), gasoline (98.2 percent) and motor vehicle tonnage (99.8 percent). MOF analysts point to the shortfall in corporate taxes as the main culprit for the tight revenue situation.

In response to cries for greater fiscal stimulus MOF has decided to boost the Fiscal Investment and Loan Program, the government's second capital budget, by more than Y1,754 billion or $13 billion (see Table 2). This is an unusually large increase and will bring FILP growth for FY 1991 to 11.5 percent, nearly double the initial figure of 6.2 percent.

Table 2: FY 1991 Supplement to the Fiscal Investment and Loan Program

(in billions of yen)

National Forest Service	Y40.8
Public Enterprise Finance Corp.	295.0
Small Business Finance Corp.	130.0
Japan Railways Resolution Corp.	150.4
Foreign economic assstance	7.9
Hokkaido-Tohoku Development Corp.	20.0
Okinawa Development Finance Corp.	50.0
Japan Development Bank, Ltd.	300.0
Export-Import Bank of Japan, Ltd.	350.0
Local public organizations	370.0
Other	40.0
Total	1,754.1

Source: Ministry of Finance

FY 1992 tax policy - The financial gymnastics evidenced in FY 1991's supplemental budget, however, may seem simple in contrast to the maneuvers taking place in the FY 1992 budget process. Just a month ago private and MOF number-crunchers were projecting a FY 1992 revenue gap of as much as Y6 trillion or $44.4 billion (see JEI Report No. 41B, November 1, 1991). According to December 6 testimony by MOF officials before the Diet, the projected shortfall has been downgraded to Y2.2 trillion ($16.3 billion); this sharply improved forecast still represents a weighty problem. To bridge the gap MOF and the ruling Liberal Democratic Party are weighing several options:

- Extending special taxes - In coming up with funding for Japan's Y1.8 trillion ($13 billion) contribution to the multinational coalition that freed Kuwait from Iraqi occupation Tokyo imposed, for FY 1991 only, a surcharge of 2.5 percentage points on corporate income taxes and raised the tax on gasoline from Y2.04 (1.5 cents) per liter to Y3.06 (2.3 cents) per liter, or from about 6 cents to 9 cents per gallon (see JEI Report No. 9B, March 8, 1991). MOF and LDP officials initially suggested extending these taxes beyond their March 31, 1992 expiration date as one revenue-generating measure. (The two taxes were projected to raise Y670 billion or $5 billion during FY 1991.)

The proposed extension has angered the business community and fractured both the ruling and the opposition parties. Although a general agreement appears to have evolved to replace the corporate income tax surcharge with a slightly less burdensome levy, there is no consensus about continuing or replacing the special gasoline tax. Neither has a consensus developed over the exact level of the new corporate income tax surcharge.

- Automobile tax - When the 3 percent consumption tax replaced a host of targeted commodity taxes in FY 1989, car buyers did not get as big a break since special tax rates were worked out, dropping the previous 18 to 23 percent levy to 6 percent for three years; beginning in FY 1992 new car purchases were to be taxed at 3 percent, like any other item. MOF and LDP officials have raised the possibility that the cut to 3 percent, set for April 1, may be delayed at least one fiscal year.

The proposal has been criticized by both domestic and foreign automotive makers. Opponents point out that the rate cut would make only a small dent in revenues but conceivably could generate sales of an additional 100,000 vehicles; the additional sales, in turn, would boost tax receipts by Y118.1 billion ($875 million), covering a large part of the projected Y200 billion ($1.5 billion) loss of revenues due to the lower rate.

- Consumption tax - As an alternative, MOF and LDP officials have begun hinting that an increase in the current 3 percent consumption tax rate may be another revenue-raising option. Given the massive negative consumer reaction that greeted the tax when it first was implemented, this option may carry a high political price, even though consumers since have become resigned to the levy. This step is seen as a last resort, to be taken only when other alternatives fail to pan out.

- Other ideas - Both the LDP and the Finance Ministry have inaugurated panels to study new taxes for FY 1992 and beyond. One MOF suggestion is to divert revenues from a new national land-holding tax that will be introduced in FY 1992 (see JEI Report No. 47B, December 14, 1990). The original purpose of the tax was to stabilize land prices, but the suggested revision sees a new

source of funding for government operations. Finance officials also have stated they are exploring additional indirect taxes to reduce the government's reliance on income taxes, which are heavily subject to the economy's performance. User fees and charges for the use of radio frequencies and other public goods regulated by the government are other options.

However MOF and the LDP decide to address the revenue gap, neither businesses nor individuals (either at home or abroad) are likely to welcome tax hikes at a time when the domestic economy is slowing. With upper house elections set for mid-1992, the LDP faces a politically hazardous fiscal course.

Jon Choy

102nd Congress Wraps Up First Session

Rushing to tie up loose legislative ends before the Thanksgiving holiday, lawmakers left Washington the evening of November 27 in a manner that hinted at next fall's election politics. Fearful that their absence could provide an opportunity for the Bush administration to seize the political agenda, legislators kept a door open in the Capitol to allow for a quick return. A technicality in the adjournment resolution would make it easier for Congress to regroup in December if necessary; it directs lawmakers to return January 3 to close the first session formally and to initiate the second. As usual, in the days before their departure lawmakers quickly passed bills they had debated for months and paved the way for other measures to proceed when the next session opens January 21 in the Senate and January 22 in the House. Among the issues Capitol Hill addressed in the final days of the first session were:

Banking reform - The banking bill that cleared Congress November 27 was far from the major overhaul of the banking industry envisioned at both ends of Pennsylvania Avenue earlier this year. The broad reform initiative had a difficult, winding route to travel, particularly in the House, where it fell under the jurisdiction of five committees. In early November the House rejected one reform measure (HR 6) that had been revised along the way (see JEI Report No. 25B, July 5, 1991 for an overview). Challenged by the White House and worried about the nation's economic health, House leaders eventually agreed that their work on a banking proposal would have to go beyond the essential step of bolstering the Federal Deposit Insurance Corp. On November 21 the House passed HR 3768, which focused on replenishing the alarmingly low reserves of the FDIC and reforming the deposit-insurance system for banks. That same day the Senate passed S 543, a broader bill that included a renewed effort to address perceived inequities between the treatment of foreign-owned financial institutions in the United States and that of U.S. financial institutions overseas. (For more on earlier congressional efforts to address this issue, see JEI Report No. 40B, October 25, 1991.)

House and Senate efforts to reconcile the two measures again narrowed the bill. The compromise measure written overnight November 26-27 and cleared by both chambers November 27 was pared down to include regulatory changes and a $30 billion line of credit for the FDIC. The bill steers clear of the questions that made banking regulation overhaul so controversial, including expanded powers and business opportunities for banks. Dropped in the conference committee